

## THE LONDON LOAN.

Col. G. W. Macfarlane's Statement.

HONOLULU, November.

Sir:—On behalf of Mr. H. R. Armstrong and myself, as Financial Agents of His Majesty's Government, commissioned to negotiate the National Loan in London, I have the honor to submit to your Excellency our report.

At the commencement of our operations, we found our efforts to effect a satisfactory result, impeded and almost thwarted by the initial attitude of various influential journals, mainly of San Francisco. Their distorted statements sedulously distributed in London contributed in a great degree to create in the minds of English capitalists doubts of the soundness of the Loan as a business proposition. This was counteracted mainly by the friendly services of the issuing house (Messrs. Matheson & Co.) and the syndicate who guaranteed the Loan.

As a preliminary a bond was executed under resolution of His Majesty's Cabinet by the Minister of Finance at that time, the Hon. Paul P. Kanoa, which was to have been deposited with Bank of England.

This was no extraordinary proceeding, but one which has been usually adopted by the syndicate, who charge themselves with effecting foreign loans in London. It appears that this action was subjected to misconception, parties inimical to the Loan construing the execution and depositing of that bond, as virtually giving a mortgage on the Islands to Great Britain. The preliminary bond was only a guarantee of the Hawaiian Government that the coupon bonds would be issued and redeemed according to law. Upon the advice of His Majesty's Minister at Washington, who conferred with me in New York by special appointment, this bond was withdrawn from such deposit with the consent of parties interested in England, and thereby all false inference obviated.

The law provided for the issuing of the coupon bonds, payable in American gold dollars. This provision we found a serious obstacle to our negotiations, as all foreign loans placed in London without exception are made payable in pounds sterling or its equivalent. For example, if a Russian Loan be authorized for a certain amount of roubles, the bonds are made payable, not in roubles, but in pounds sterling; likewise the Loans of Hispano American countries are not repaid by bonds payable in pesos or dollars, but the Japanese Loan in yen or its equivalent. This objection of English capitalists to accept any bonds unless they are the coupons are payable in pounds sterling, is not captious but grounded upon the fact, that the bondholder in London would encounter both inconvenience and difficulty in using his bonds and coupons in his commercial transactions if it became necessary or profitable to discount or otherwise dispose of the same.

We did not hesitate to accede to this change, because:

Firstly—It was necessary to success in floating the Loan.

Secondly—It worked no disadvantage to the Hawaiian people.

The second proposition we beg your leave to make clear at further length.

While your Excellency is fully conversant with the subject, so many comments have been publicly made upon this matter which were unjust that we deem it our duty to lay fully before you the reasons which actuated us in our course.

The impression that the bonds were to be issued for pounds sterling and repaid in American gold coin in the ratio of five dollars for each pound is absurd and needs no further allusion.

The proposed form of the bond did not embody such a proposition, but in consequence of your suggestion that the recitals in the bonds did not state unequivocally enough that five dollars American gold are not required to redeem a pound sterling, the wording in the recitals has been changed and we believe will now meet your approval and that of your colleagues in His Majesty's Cabinet.

Therefore the debt which the Hawaiian Government assumes to pay amounts in equivalent gold coin of the United States to neither more nor less than the amount which it receives in such equivalent. Upon this amount (\$200,000) interest is payable at six per centum, \$20,000 every half year. This makes the actual remittance for interest, at the average rate of sterling exchange through San Francisco on London (say 49 pence to the dollar) about \$29,400; though the actual rate at this time would make the cost only \$29,100, for the reason that exchange to London is invariably in favor of the remitter.

Therefore the half yearly interest would not be \$30,000, as would appear from the intermediate report of the Department of Finance. According then to the rate of exchange at the time of payment of interest the Hawaiian Government might become a gainer, but under no circumstances which can be foreseen could it ever become a loser by such remittances.

We will now by your leave submit to you the facts attending the placing of the Loan.

This work was assigned to the syndicate, the issuing house and the issuing firm of brokers. The syndicate were the guarantors to the Hawaiian Government that the Loan would be effected; in other words, if the moneyed public in London should for any reason decline to subscribe to the Loan, the syndicate were bound to furnish the money at the minimum rate stated in the law, and for this the syndicate were to receive the commission of five per centum on the first million of dollars, and such percentage as might be agreed upon on any further issue placed by them; that is to say, the syndicate were to be paid a premium of five per cent, for acting as underwriters to insure the success of the Loan, the difference between the syndicate and the purchasers of bonds being that the former are or were allowed a commission of five per cent., the latter a discount of two per cent.

There were also, outside of this commission, certain expenses to be provided for, which were necessarily incidental to placing a first Loan upon the financial market of London. These expenses were specifically detailed to the late Ministry of the Hawaiian Kingdom in a letter of which I subscribe the following copy:

[Copy.]

HONOLULU, 25th August, 1886.

His Ex. W. M. Gibson:—In reference to our conversation of this morning, I have to inform you that the expenses in floating a Hawaiian Government Loan in London would be as follows:

Underwriting by syndicate to insure the success of the Loan £5 00 00  
English stamps duty 10 "  
Printing, advertising, etc. 1 10 "  
Brokerage to stock brokers 5 "  
Commission to the issuing firm 2 10 "  
Commission to the issuing brokers 2 00 "

Total £11 15 00

It is possible that, should Hawaiian credit in London be good, these expenses might be reduced somewhat.

The above figures were given me by a well-known London firm before I left.

(Signed) H. R. ARMSTRONG.

This estimate was accepted by the late Ministry, and it was well understood that these expenses would be necessarily incurred in floating the Loan, and establishing a national credit in London. No misconception existed, but that these expenses had no relation to the commission allowed to the syndicate for the negotiation, as can be seen from that letter. We can, however, assure Your Excellency that such expenses are not only necessary, but connected with nearly every foreign loan when first made in this, the great money center of the world. Allow me to state a few instances:

Puenos Ayres 6 per cent. loan for £2,254,000 was issued at 94 per cent; commission, 10 per cent; security, harbor revenues and

railway revenues, specially hypothecated, as well as the general revenues of the country. The first Japanese loan brought out on the London market was at 7 per cent. and for £2,400,000; the issue price was 92½ per cent; commission was 7½ per cent, and expenses 5 per cent. The whole loan was not subscribed for.

Chinese first loan of 7 per cent, for £1,505,000 was issued at 98 per cent; commission, 7½ per cent; expenses, 2½ per cent, but secured by a special hypothecation of their customs revenues, and a receiver appointed by the bondholders, with a provision in the Act that holders of the bonds might pay them for customs duties. China afterwards obtained a 6 per cent. loan at same rate of issue.

Argentine Republic, Province of Cardova, has recently floated a 6 per cent. loan in London at the issue price of 91 per cent—the Act, which is dated 11th June, this year, authorizes a £6,000,000 dollar loan and the government has been placed in the London market for £35,200 pounds sterling, stating in the prospectus that the issue is of an authorized loan for \$6,000,000—the bonds are free of taxes, and the Act and issue are identical with the Hawaiian one—the resources of the country and its internal wealth however, are much larger than ours, and while our annual debt per capita is about \$1.50, theirs is but \$1.00.

These quotations will show that considering the extent of territory, amount of population, and situation of this Kingdom, the Loan has been placed in the London market under singularly favorable conditions.

If you compare the aggregate amount of commissions, expenses, etc., and net results of those loans with those of the loan effected for the Hawaiian Islands, this result, it becomes evident also that much more is due to the friendly efforts of our conditor in London, than to the gain and compensation which the negotiation held out to the persons who undertook the work.

It may be asked: Where these expenses necessary, and what benefit has the Hawaiian Government obtained through this expenditure for securing an official quotation on the London Exchange for Hawaiian National Bonds? Anticipating such questions, I respectfully submit to Your Excellency these propositions:

A Loan cannot be floated in the London market without being duly listed by the Stock Exchange. Before that is done—a committee of 30 of its members, called the Stock Exchange Committee, composed of business men and legal men of the highest standing, both as to intelligence and integrity, require of the issuing house the production of a complete and verified list of the names and addresses of all the subscribers to the loan and the amount allotted to each subscriber respectively.

The Committee must ascertain if the subscriptions and allotments are made in good faith, and must find that no allotment has been made to any member of the Syndicate unless the subscriptions by the public have fallen short of the amount of the loan called for. Only upon such finding will official recognition be given by the Exchange to the bonds.

This is done to prevent stock-jobbery with National securities and the consequent impairing of the credit of the government. When bonds are so done, it is done, it is wise to protect the public who invest in such securities in good faith, upon the express assurance of the Stock Exchange Committee, that the representations made in placing such stock before the people are justified and that the quotations at which they are placed are in good faith the representative value of those securities, and that the business world can with confidence expect the prompt payment of the interest accruing on such securities. Those bonds then acquire a value and commercial usefulness, because the Banks and Commercial Houses then only recognize their value.

In the course of time, if nothing untoward happens, and the payments of interest are promptly made, the premium reaches a point which represents a unit of interest, and the bonds can be converted at par value, into others bearing less interest, until the Loan be placed at the same rate which other older and richer countries have obtained through the good faith shown in the dealings of their Governments with the financial world of London. This course we followed, and despite the violent, unfair and unjustifiable attacks of a certain portion of the American press, not only was the Loan placed and regularly listed, but through the effort and aid of the capitalists who were friendly disposed to this Kingdom and its interests, the securities advanced on their own merit, to a premium of eight per centum above their par value. At this figure it remained under unimportant fluctuations, and we had perfected the arrangements to place the remaining quarter of the Loan (\$100,000) at that figure (the benefit of which advance would have accrued entirely to the Hawaiian people) when news reached London, of the change of administration. So much better informed are the commercial public there upon Hawaiian affairs, that the would be supposed in the Islands, that the change in the Government had not affected the value of the Hawaiian securities, but when the false news was disseminated there, that the new administration contemplated repudiation, the Hawaiian bonds fell in value, from 108 to 85.

As is well known to your Excellency at that time there were two local private enterprises mooted, which were supposed in London and acknowledged in Honolulu, to be of great importance, and carried in them the promise of great benefit to our community, viz: the projected railroad of the Hon. Saml. A. Wilder and the colonization undertaking of J. F. Dillingham, Esq.

The projects had no relation to or connection with one another, and were being taken in hand by different moneyed circles in London; yet the effect of those rumors of repudiation by the Hawaiian Government was such, that both projects had to be abandoned, we hope, however, only temporarily.

It is hardly necessary to point out to your Excellency, how intimately the possibility of obtaining cheap capital for private and semi-private enterprises is interwoven with the establishment and maintenance of a sound national credit, and this can be said with greater force of the Hawaiian Islands than of other countries, such as mining countries; in the latter the mining spirit assists the national credit, and the national credit assists the mining spirit.

Understandings obtain a recommendation character, only through the showing of stability, intelligence, economy and honesty of the Government.

Through the efforts of those to whom this business was entrusted, the Hawaiian credit was firmly established in London, and that under conditions which were by no means onerous or exacting; so that private persons in England, who are largely interested in business in these Islands, were astonished as well as pleased at the success which attended those efforts.

The fact of the establishment of this credit was, however, not the only advantageous results. The firmness in value which the Hawaiian bonds obtained induced some banking houses to propose to us as follows:

If the Hawaiian Government desired to issue the remaining quarter of the national Loan, it could deposit its bonds, without issuing them at that time, as collateral security, for from 85 to 95 per centum of their par value, and obtain an open loan to that amount, at interest a small fraction above the prevailing rate at the banks—say between 4 and 5 per centum per annum for such a length of time as would enable the Hawaiian Government to dispose of the last issue to the best advantage, i.e., even at a better rate than those securities commanded at that time.

The establishment of a sound national credit enables the Hawaiian Government to issue and place at once, in its case of necessity, its debenture bonds, to further public works, which are productive, at a low rate of interest, and without great expense or discount; it enables the Hawaiian Government, in the event of any great accident or public calamity, to find relief, without delay or harsh conditions; it assists incidentally all honest and legitimate private enterprises of a quasi-public character, to obtain capital at low rates of interest.

These benefits had assumed shape and promised to become a certainty, and the slander that the Government intended to repudiate shook the credit of the Kingdom; the lost ground will no doubt be recovered,

but that rests with the action of the Hawaiian Government.

We now beg leave to call your Excellency's attention to our action with reference to the redemption of the bonds of Mr. Claus Spreckels. When the Loan was first placed upon the market, the subscriptions were payable in fixed installments, as is usual in such transactions, bringing the average to the 1st of January, 1887, as nearly as practicable. For these subscriptions and the first six months' interest, the issuing house delivered to the subscribers its scrip certificate returnable upon delivery of the coupon bonds; therefore at the delivery of those bonds only fifty-nine instead of sixty coupons will be deliverable.

The deposit money is usually not paid over until the delivery of the bonds. We therefore arranged with the issuing house to invest it at all at the best rate which could be obtained; this was done as the subjoined statements of interest earned will show, and this investment was made at the risk of the issuing house, and not the Hawaiian Government.

[Copy.]

Memo. of interest on deposit account Hawaiian Loan:

	£	s.	d.
50,000 December 15, December 30	66	15	7
15 days, rate 3½ per cent			
10,000 withdrawn December 30			
40,000 December 30, December 31	3	11	3
1 day, rate 3½ per cent			
40,000 December 31, January 6	21	7	5
6 days, rate 3½ per cent			
40,000 January 6, January 12	19	14	6
6 days, rate 3 per cent			
50,000 deposited January 12	110	19	1
90,000 January 12, January 27, 15			
days, rate 3 per cent			
10,000 deposited January 27	57	10	8
100,000 January 27, February 3			
7 days, rate 3 per cent			
100,000 February 3, February 10	47	18	11
7 days, rate 2½ per cent			
50,000 deposited			
150,000 February 10, March 1, 19	185	4	1
days, rate 2½ per cent			
100,000 withdrawn March 1			
50,000 March 1, March 3, 2 days	6	17	0
rate 2½ per cent			
50,000 March 3, March 10, 7 days	28	15	4
rate 3 per cent			
50,000 March 10, March 24, 14	88	7	1
days, rate 2 per cent			
50,000 March 24, March 30, 6 days	12	6	6
rate 1½ per cent			
30,000 deposited			
80,000 March 30, March 31, 1 day	3	5	9
rate 1½ per cent			
80,000 March 31, April 7, 7 days	23	0	3
rate 1½ per cent			
80,000 April 7, April 21, 14 days	30	13	8
rate 1 per cent			
80,000 April 21, May 5, 18 days	29	11	9
rate ¾ per cent			
80,000 withdrawn May 5			
6,000 May 10, June 30, 51 days	8	7	8
rate 1 per cent			
6,000 withdrawn June 30			
E. & O. E.	£704	6	6
London 16th Sept., 1887.			

(Signed) MATTHEW & CO.

It will be observed that while the capital commanded at first over 3 per centum, the bank rates on call loans shortly thereafter decreased steadily. I had received instructions to obtain the funds necessary to redeem at the earliest time the bonds held by Mr. Spreckels.

In accordance with those instructions and also as much as possible to avoid an actual loss in interest (for the bonds to be redeemed were drawing interest as well as the money subscribed) we carried out the wishes of the Government by inducing the issuing house to remit the necessary amount to San Francisco for the redemption of those bonds, at the same time advising the Government that the money had been placed to their credit with the Bank of California for that purpose. At the time of the redemption of these bonds the subscriptions to the Loan were drawing interest at the rate of six per centum per annum, while the bonds of Mr. Spreckels were drawing a like rate. As the money received from the subscriptions could not be invested on call (at the time of this remittance) at over 2½ per cent per annum it will be seen that if we had not acted as we did, a clear loss at the rate of 3½ per cent per annum would have been entailed to the Hawaiian Government for the intervening period pending the arrival of the coupon bonds.

A point has been raised that, in the form of the bond submitted, the name of the Hon. Paul P. Kanoa appeared printed. This has been considered proper and essential, because the negotiations were made by him, under sanction of the law and the subsequent action of His Majesty's Cabinet. The bonds will, of course, have to be signed by Your Excellency, as the successor in office to the Hon. Paul P. Kanoa, and this will, in the opinion of the legal advisers of the Stock Exchange Committee, make the bonds perfect.

As to the coupons, the inquiry which Your Excellency made in your dispatch to Mr. Armstrong may be answered to the effect, that the engraved fac-simile signature of those who conducted the negotiations, and signed the preliminary bond, is held in London in all cases amply sufficient, there being no requirement in the Loan Act that the Registrar of Public Accounts should countersign anything but the bond itself.

I believe, Your Excellency, that we have in every way endeavored to guard and further the interests of the Kingdom in the conduct of these negotiations, and trust our course of action has gained the approval of Your Excellency and His Majesty's Government. I have the honor to remain, Sir, your most obedient servant, G. W. MACFARLANE, To His Excellency, William Lorthian Green, His Hawaiian Majesty's Minister of Finance.

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